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Dominican Republic

Sugar Annual

2010

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Report Highlights:

Post has slightly adjusted MY 2009 Dominican sugar production estimates to reflect industry results and current estimates for MY 2010. Based on official data estimates for MY 2010, production is estimated at 510,000 MTRV and consumption remains stable at 330,000 MTRV. After the Haiti earthquake in January 2010 the Dominican sugar market faced pressure from its neighboring country. This in turn required imports of 70,000 MT of South American Sugar to cover the deficit. The current U.S. TRQ allocation to the Dominican Republic with its additional requirements is half filled. No sugar will be available for export to the EU under the economic trade agreement with the Caribbean region because of the shortage in MY 2010. Legislation on biofuels is moving forward slowly.

Executive Summary:

Dominican sugar production for MY 2009 was adjusted to reflect lower production reported by the Sugar Institute (INAZUCAR). Production is estimated for MY 2010 at 520,000 metric tons slightly lower than Post's previous estimation as a result of good weather conditions. Total production for the out year MY 2011 is anticipated to be lower, around 500,000 MTRV as a result of a current drought that may affect the next harvest. The two largest private producers, Central Romana and the Consorcio Azucarero Central, are expected to produce 87 percent of production.

Domestic sugar consumption is fairly stable near 335,000 metric tons; 150,000 MT refined and the rest in raw form. The general public consumes sugar mostly in its raw form, while the soft drinks and juices and confectionary industries primarily use refined sugar. The country's total refined sugar needs are currently met and no imports are anticipated. This is not the case for raw sugar.

The Dominican Republic is the largest holder of the U.S. tariff rate quota (TRQ) for sugar and continues to receive the highest single-country allocation. To date, the current allocation (Oct 2009-Sept 2010) of 200,597 MTRV is almost half way filled.

The DR-CAFTA agreement was implemented (3-01-2007) allows an additional 10,800 metric tons, with two percent yearly growth, if the DR meets the net-exporter requirement of the agreement. Under this new agreement the DR will phase out its sugar tariffs over a 15-year period beginning with 85% out of quota tariff. High Fructose Corn Syrup (HFCS) will also be phased out in a similar period, with an initial TRQ of 55 MT.

In addition to the higher demand for Dominican sugar in the international market as a result of the negotiations with European Commission for an Economic Partnership Agreement (EPA) in 2008, the earthquake in Haiti created additional demand. This catastrophe has forced the Dominican authorities to import 70,000 MT of South American sugar to compensate with the Haitian informal demand and forego exporting to the EU in 2010.

Commodities:

Sugar, Centrifugal

Production:

MY 2009 production was slightly lower than initially estimated due to production adjustments done by INAZUCAR (GODR Sugar Institute). Production was adjusted to reflect these changes. The current MY 2010 harvest has been slightly adjusted as a result of lower output estimates at all three of the private mills whose production output remained almost flat, except for better conditions. Although it is early to say, the out year show some promise as demand increases from foreign markets at attractive prices. Nonetheless the drought experienced in recent months may alter the out year claims

The two largest private producers, Central Romana and the Vicini group continue to dominate the Dominican sugar market and are expected to produce about 450,000 MTRV (metric tons raw value) in MY 2010 (November 2009–October 2010 marketing year), somewhat higher when compared to the year before, but lower that previously estimated. The third private producer, Central Barahona is expected to add an additional 66,000 MTRV, but higher than initially estimated. The normal weather conditions this year has changed to a heavy drought. In recent weeks, an improvement in rainfall pattern may continue through the remaining harvest and this will affect the out year. The MY 2011 production estimate at this time, assumes an average rainfall pattern and a slightly higher sugar output.

During the Dominican sugar golden years in the late seventies, the total output of sugar surpassed 1.2 million tons. Production gradually fell to an all-time low of 371,000 metric tons in MY 1999. This production decline was mainly due to technical, administrative, and financial difficulties with the twelve state-owned sugar mills controlled by the State Sugar Council (Consejo Estatal del Azucar or CEA), the major producer at the time. In addition, the private sector had three mills in operation. A hand full of these government owned mills, through a joint venture arrangement, were allocated in CY 2000 for a 30 year lease, to private groups and are now administered by them with mixed results. As a consequence of the privatization process and closing down some mills, production dropped initially but has become stable in recent years. Some improvements to the mills have revamped production compensating for some of the mills that no longer operate.

A breakdown of official data on sugar output by producer group follows:

TOTAL SUGAR PRODUCTION BY COMPANY
MY 2008 – MY 2010*, Metric Tons

Sugar Mill Group	MY 2007	MY 2008	MY 2009	MY 2010*
Central Romana	370,270	365,000	380,000	380,000
Central Azucarero Consuelo	0	0	0	0
Grupo Vicini	61,716	82,000	68,000	72,000
Central Azucarera del Este (Porv.)	0	0	0	0
Consorcio Caña Brava	0	0	0	0
Consorcio Azucarero Central (Barahona)	50,200	53,000	63,000	68,000
Total	***482,186***	***500,000***	***511,000***	***520,000***

Source: Dominican Sugar Institute (INAZUCAR) and post estimates.
* Estimates

There is only one sugar refinery operating at full capacity in the country at the present time with a total output of 150,300 metric tons for MY 2009 season.

According to INAZUCAR, the production pattern for refined sugar in MY 2010 should remain at the same levels as in MY 2009, meeting most of the country's refined sugar needs. However, the higher demand of raw sugar for the foreign markets, particularly after the earthquake in Haiti and the increase in the U.S. quota have required additional sugar to meet the demand in 2010. As a result, imports are already moving into the market. The EU market on the other hand, may not receive Dominican sugar this year.

Molasses and furfural (a liquid aldehyde used as a solvent or for furan or phenolic resins) also represent important sources of revenue for the industry. According to official data for MY 2009, the sugar industry produced about 37 million U.S. gallons of molasses produced by all the operating mills; Central Romana produced almost 33,000 metric tons of furfural.

In MY 2010, Central Romana and the Consorcio Azucarero Central began the sugar harvest in December, while the Vicini Group began in January. This mill is able to process more cane before the rainy season which typically interrupts the harvest in late June or early July. The last to mills, with a slightly different climatic pattern due to their geographical location in the island, extended harvest through August. The Consorcio Caña Brava, which has not been operational during the last four harvests, used to begin harvest in June.

Rainfall patterns, fertilization, and labor are the main factors that determine sugar yield. Industry sources indicate that fertilizer application has shown little change in the last five years, due to high costs. While most fertilizer is applied manually, Central Romana, and sometimes other groups do minimal amounts of aerial spraying. Less than half of the land in sugar cane production is irrigated and, as a consequence, is subject to stress during dry periods.

The sugar industry requires about 20,000 full-time workers and, additional 10-15,000 temporary cane cutters during harvest. Mechanized harvest has slowly increased to around 50-60 percent of production. The degree of mechanization may continue to increase, as operating costs increase and fewer cutters are available.

Cane yields vary between 30-80 metric tons per hectare; depending upon location, rainfall patterns, available transport resources, cane varieties and fertilizer use. Some producers incorporate modern management procedures and spend more on inputs to obtain higher yields. During the last ten years, the sugar recovery rate averaged nearly 10.6 percent, but has been higher during the most recent five years. In MY 2009, sugar recovery rates averaged 10 percent, while Central Romana was somewhat higher (about 11.5 percent). Estimate for MY 2010 is anticipated to be slightly higher if the stress of the drought did not affect sugarcane growth this year.

For decades, sugar cane producers have been devoting time and monetary resources to develop improved cane varieties. Sugar extraction rates have varied widely, however, between 8 and 12.5 percent. Sugar content also fluctuates between seven and 13 percent, depending on variety, level of plant maturity, and time spent on the ground or in transport after cutting. Local cane varieties are resistant to all of the major diseases currently identified in the Dominican Republic. Some of the sugar cane crosses used in the DR are: CR-74250, CR-6101, PR-63488, RD-7511 and B76-78.

Cost of production varies substantially from company to company, ranging from US$ 0.15 to US$ 0.25 per pound.

Alternative use of sugar cane for other purposes appears to be moving forward. There has been considerable information on government plans in the press during the last two years on the subject of biofuels. Ethanol appears to be the first option and legislation is moving slowly in this direction.

A new group is considering taking over two non-operating state owned mills, with plans to initially concentrate in recuperating the sugarcane fields for sugar production, because of the high degree of deterioration of these two factory fields. Further down the road this new group will consider ethanol production.

In the meantime, there is another separate project with the intention of dehydrating the ethanol from imported hydrated ethanol and/or locally produced hydrated ethanol. As it stands, needed legislation and investors, and foreign markets prices will define at the end if ethanol will move forward or not. If feasible, local production is at least 2-3 years down the road.

Consumption:

Domestic sugar consumption is fairly stable at about 335,000 metric tons, with 55 to 60 percent consumed raw and the rest as refined sugar. The general public consumes sugar mostly in raw form, while the soft drink and juices and confectionary industries primarily use refined sugar. Central Romana is currently the only local refiner and is running at full capacity to produce about 155,000 metric tons. Semi-refined sugar has not been manufactured in the last five years.

The following table is derived from INAZUCAR data and shows the pattern of local sugar sales.

LOCAL SUGAR SALES BY PRODUCERS

Metric Tons

Sugar type	CY 2007	CY 2008	CY 2009	CY 2010*
Raw	185,000	185,233	180,100	180,000**
Refined	149,500	149,879	150,385	150,300
Total	334,500	335,112	330,485	330,324

*Preliminary estimate and includes imports.

**Does not Include 40,000 MT of informal trade with Haiti.

Source: INAZUCAR and Industry.

Trade:

Due to the production adjustment and imports, MY 2009 sugar import estimates were revised and slightly adjusted. Current raw production estimates for MY 2010 will unlikely meet demand. Post believes, unless production goes beyond current estimates that 40,000 MT of raw sugar have moved across the border to Haiti after the January earthquake. GODR officials estimate that for MY 2010 a total of 70,000 MT will be required before the end of the year.

The Dominican Republic is the largest holder of the U.S. tariff rate quota (TRQ) for sugar and continues to receive the largest single country allocation of 16.4 percent of the total U.S. allocation for the world. The DR's initial TRQ allocation for MY 2010 is 185,335 MTRV and adjusted in April 2010 to 200,597 MTRV. According to Dominican Government officials, the Dominican Republic is expected to fulfill the totality of the U.S. quota.

In the DR-CAFTA free trade agreement implemented on March 1, 2007, an additional 10,000 MT could be added to the current quota, with two percent growth per year, if the DR can meet the net exporter requirement of the agreement.

As of April 6, 2010, certificates for 131,700 metric tons raw value have been requested by the Dominican Republic for export to the United States under the 2009/10 TRQ, but no additional sugar will be available for the EU market. Most exports are now moving to the United States, because of price and proximity, except for small quantities shipped traditionally to Puerto Rico and informal trade with Haiti. The opening of the European market under a new economic partnership for Dominican sugar described at the end of this section, allows a new destination beginning in October 2008.

Import duties are 15 percent for raw sugar and 20 percent for refined sugar, plus a 16 percent value-added tax, referred to by its Spanish acronym ITBIS. Imports of sugar and sugar-based products still require permits from INAZUCAR (decree 576-96). With the tariff rate quota negotiated in the Uruguay Round in mind, the Dominican Republic has stated that it could issue permits for up to 35,000 metric tons imports on a first-come, first-serve basis. However, for MY 2010 and because of the Haitian needs after the earthquake the Secretary of Industry/INAZUCAR has authorized imports mostly to the producers. With just the 20 percent tariff and 16 percent ITBIS, refined sugar imports (in quota) would enter the country at prices well below those of domestic sugar. So far, imports for 70,000 MT under this arrangement have been authorized.

There are two industries and sister companies operating as off-shore plants belonging to a special Free Trade Zone operation, using sugar as a raw material. These companies produce sweetened coconut milk and piña colada mix for the export market. They also produce juices and smaller quantities of canned red-pinto-beans and garbanzos, which contain some sugar. According to CNZFE, they are authorized to import and re-export as much as 6,600 MT of sugar per year. Ag Office import estimates in this report do not include the free trade zone sugar.

In addition to raw sugar exports, other sugar related products are produced for the local and international markets. Molasses and furfural (a liquid aldehyde used as a solvent or for furan or phenolic resins) also represent important sources of revenue for the industry.

According to preliminary INAZUCAR statistics for MY 2009, sugar exports to the U.S. preferential market represented about US$ 80 million. In addition, the sugar industry produced 38 million gallons of molasses, about 20 million gallons of which were used for local consumption and 17 million gallons (valued at $11 million) was exported. In addition to molasses, 31,200 MT of furfural were exported, for an additional US$ 17 million in revenues.

In January 1, 2008, the DR as part of a Caribbean group concluded the negotiations with European Commission for an Economic Partnership Agreement (EPA). The agreement will benefit bananas, rum, cocoa, textiles, shoes, and tobacco. Thirty thousand tons of Dominican sugar had access the EU in late 2008 and, starting in October 2009, it will have free access thereafter. As October 2009, Dominican sugar will enter at €335.20 per metric ton, somewhat lower that the U.S. preferential rate. INAZUCAR authorities indicate that exports to the EU will only occur after the U.S. quota commitments are filled.

Stocks:

Producers mostly hold sugar stocks, although middlemen and wholesalers also carry stocks. As imports were authorized in MY 2010, stock levels were about 20,000 MT. As production and consumption continue unchanged in MY 2011, stocks are estimated to remain in the same range.

Policy:

Several laws regulate the sugar sector. Law 491 controls the relationship between private cane producers and processors and sets the price for cane based on sugar content. Law 619 assigns regulatory functions to INAZUCAR and also governs marketing (domestic and export), price schedules, and statistics.

The U.S. sugar quota is divided among the producers according to an established formula based on last three-year individual production levels. Previously, INAZUCAR published the assigned percentages to the industry. Currently, a Presidential decree officially announces the allocation. This year (2008-09), the allocations are: Central Romana 68.8 percent, Vicini 17.9 percent and Consorcio Azucarero Central, 13.4 percent.

As part of its WTO rectification agreement, after the Uruguay Round, the Dominican Government established a tariff rate quota for 23,000 metric tons of sugar, with an in-quota tariff level of 15 percent for raw while 20 percent for the refined. This gradually increased to 32,000 metric tons since 2005. Maximum out-of-quota tariffs were established at 100 percent, decreasing to 86.5 percent by 2005 and have remained at that level.

Under the new DR-CAFTA agreement implemented on March 1, 2007, the DR will phase out its sugar tariffs over a 15-year period beginning with 85% out of quota tariff. High Fructose Corn Syrup (HFCS) will also be phased out in a similar period.

Legislation is moving forward in the direction of sugar diversification into biofuels, specifically in ethanol-gasoline blends. Ethanol appears to be the first option and legislation is already moving forward. The ethanol-gasoline blend use was authorized by an old law (2071) and reactivated by a Decree 556-05 issued in 2005. The regulations required by the 2005 law, was enacted as a Law 57-07. A new legislation imposing the use of a five percent alcohol in gasoline awaits approval. The document has already passed in one of the two chambers and government officials in the Ministry of Industry believe that it will become a law in the near future.

On a separate matter, it was announced today that Spanish investers Globasol (Spanish Group Globalia) had signed an agreement with another Spanish firm; Ingenieria TSK-Ingemas to build the first biodiesel plant in the country (province of Azua). No further specifications are available at this time.

Marketing:

The Secretary of Industry and INAZUCAR establish the base price of raw and refined sugar. As a result, prices are stable and producers sell directly to wholesalers and to large companies that use sugar in their product formulations.   As of April 13, 2010, the official sugar prices were as follows:

Official Prices for Sugar (April 2010)

Type of sugar	*Producer (per 100 lbs.)*	*Wholesaler (per 100 lbs.)*	*Retailer (per lb.)*
Raw	1,360.00	1,469.00	16.00
Refined	1,500.00	1,635.00	18.00
Exchange rate per US$: RD$36.20 pesos			

Source: INAZUCAR, Resolution No. 04-2010

Dominican sugar cane prices have been very volatile in recent months due to a shortage in domestic sugar and increases in international prices. Local prices are generally guided by the exchange rate. While the 2007/2008 and 2008/2009 showed very little increase, current prices have been changed dramatically. As a result, the retail prices for sugar have been recently changed. As of April 13, 2010, prices for crude sugar ranged from US$0.44 to US$0.49 per pound (RD$16-18). Refined sugars ranged from US$0.50 to US$0.55 per pound (RD$18-20). Supermarkets generally sell raw sugar in two and five-pound packages, while small neighborhood stores (colmados) sell in very small amounts to meet the needs of lower-income consumers.

Production, Supply and Demand Data Statistics:

Sugar Cane for Centrifugal Dominican Republic	2009			2010			2011			
	2008/2009			2009/2010			2010/2011			
	Market Year Begin: Jan 2009			Market Year Begin: Jan 2010			Market Year Begin: Jan 2011			
	USDA Official Data		New Post Data	USDA Official Data		New Post Data	USDA Official Data		New Post Data	
Area Planted	250	0	242		0	225			225	(1000 HA)
Area Harvested	240	0	232		0	225			225	(1000 HA)
Production	5,200	4,750	4,577		0	4,500			4,500	(1000 MT)
Total Supply	5,200	4,750	4,577		0	4,500			4,500	(1000 MT)
Utilization for Sugar	5,200	4,750	4,577		0	4,500			4,500	(1000 MT)
Utilizatio for Alcohol	0	0	0		0	0			0	(1000 MT)
Total Utilization	5,200	4,750	4,577		0	4,500			4,500	(1000 MT)

Sugar, Centrifugal Dominican Republic	2009			2010			2011			
	2008/2009			2009/2010			2010/2011			
	Market Year Begin: Nov 2008			Market Year Begin: Nov 2009			Market Year Begin: Nov 2010			
	USDA Official Data		New Post Data	USDA Official Data		New Post Data	USDA Official Data		New Post Data	
Beginning Stocks	35	42	35	40	15	10			24	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0			0	(1000 MT)
Cane Sugar Production	520	510	510	525	520	520			500	(1000 MT)
Total Sugar Production	520	510	510	525	520	520			500	(1000 MT)
Raw Imports	40	12	12	20	30	70			30	(1000 MT)
Refined Imp.(Raw Val)	0	0	0	0	0	0			0	(1000 MT)
Total Imports	40	12	12	20	30	70			30	(1000 MT)
Total Supply	595	552	557	585	585	600			554	(1000 MT)
Raw Exports	215	215	215	215	215	242			220	(1000 MT)
Refined Exp.(Raw Val)	2	2	2	2	2	2			2	(1000 MT)
Total Exports	217	217	217	217	217	244			222	(1000 MT)
Human Dom. Consumption	335	330	330	335	332	332			335	(1000 MT)
Other Disappearance	0	0	0	0	0	0			0	(1000 MT)
Total Use	335	330	330	335	332	332			335	(1000 MT)
Ending Stocks	43	15	10	33	15	24			17	(1000 MT)
Total Distribution	595	552	557	585	585	600			554	(1000 MT)